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ABSTRACT

Designed for the general public and possibly suitable also for high school and college economic students, the handbook gives general information about investing in the stock market. Arranged into seven sections, the handbook discusses the typical shareholder, common and preferred stocks, buying and selling bonds, how to develop a personal investment plan, fundamental rules for successful investing, the broker and the securities market, and the language of the financial community. Specific topics include: the benefits of investing, where to start, the risk element, strong points and shortcomings, types of bond obligations, the conservative investor, building an estate, approaching retirement, functions of exchanges, control of credit, and the role of the broker. Over 100 financial terms and definitions are provided throughout the document. Charts illustrating United States shareowners of public corporations, a record of common stocks, Standard and Poor's stock price index, long term bond yields, and tax-exempt vs. taxable yields are also provided. (LH)

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Standard & Poor's

HOW TO INVEST

A handbook for buying and selling stocks and bonds

SO 015 224

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Who Invests

From a total of 6,490,000 in early 1952, the number of shareowners in public corporations rose to 12,490,000 in 1959, to more than 20,000,000 in 1965, and to almost 31,000,000 in 1970. There were nearly 30 million in 1980. Stated another way, nearly one in 5 adults own stock currently, as compared with one in 12 in 1956, and one in 16 in 1952.

MAIN STREET, NOT WALL STREET

What has been behind this growing public interest in securities? Basically, the nation's continued economic growth has meant prosperous conditions for virtually all segments of the population and has led to the creation of a vast middle class. Coincident with the increase in funds available for spending or saving, people have become more aware of the benefits accruing from direct security ownership, a recognition brought about by the rise in the stock market itself and by the educational programs of the stock exchanges and other organizations.

Through the steady progress achieved in widening the ownership base, security investments are no longer regarded as a vehicle reserved for the very few or the very wealthy. Today, American industry is owned by persons in every walk of life, in every occupation, and in every section of the country. Main Street, rather than Wall Street, more nearly typifies today's roster of security owners.

PROFILE OF TYPICAL SHAREOWNERS

According to the latest survey conducted by the New York Stock Exchange (1980), the typical shareowner is 46 years old. Nearly 75% of adult shareowners have attended college.

More than 80% of all shareowners live in metropolitan areas. Since 1965, the largest increase in shareownership has occurred in large metropolitan areas, i.e., those areas with populations of one million or more.

What about occupations? There is no particular mold. Housewives and retired people are the largest single group, about 33%. Professional and technical people form the largest category of employed shareowners.

BENEFITS OF INVESTING

A further broadening of the base of security ownership is a desirable objective from the standpoint of the public, the business community, and the nation at large. Benefits accrue to all.

To the individual, the advantages may be summarized as (1) the realization of a satisfactory income return, (2) protection for the purchasing power of his dollar in times of inflation, (3) participation in long-range growth of the American economy, and (4) a feeling of well-being in having an interest in prominent corporations.

Business managements welcome a growing list of stockholders. The raising of new capital is facilitated. The use of company products is promoted. Employer-employee relations are improved where employee stock purchase and savings plans are instituted. Finally, a more informed viewpoint is created regarding the risks inherent in business transactions.

To the nation at large, the major benefit is that the closer association of personal interests with business leads to a better understanding of our capitalistic system. Dispersal of ownership of large-scale corporations among thousands of investors is considered more advantageous for the public welfare than the

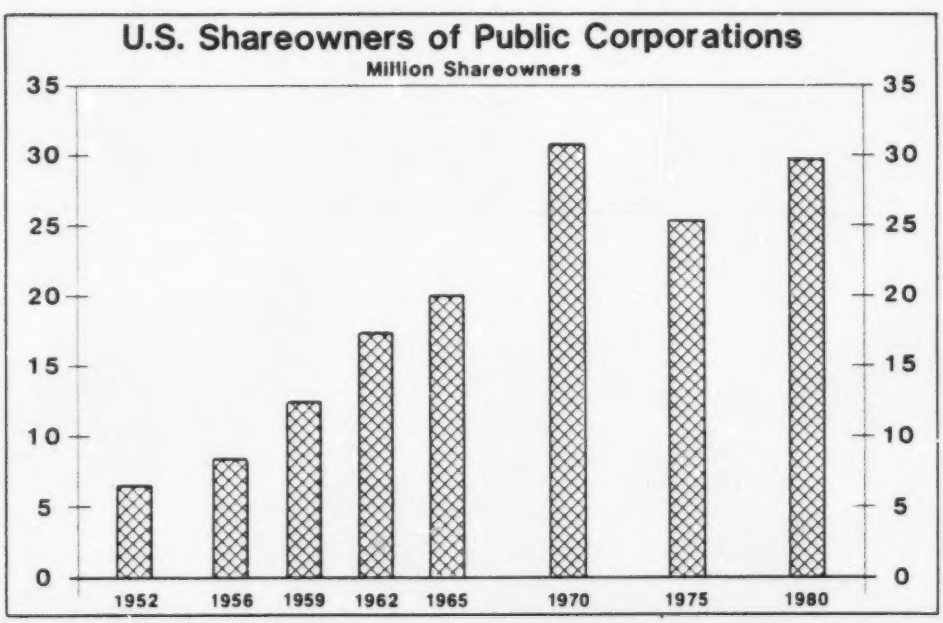
concentration of holdings in a comparatively few hands.

WHERE TO START

Well, you may say, I am interested in investing some of my funds. The benefits outlined briefly above make sense to me, and I know people who have realized some handsome profits on their security commitments. How do I start, and just how easy is it to invest?

Answering the last part first, there is nothing difficult about the mechanics of investing. The procedure is merely to place an order with a reliable broker or dealer. You will find that there is virtually no other type of asset with the same high degree of liquidity as that of stock investments. Buying and selling are usually two different things, but securities can be sold as quickly as they can be bought. You do not have to seek out buyers and sellers; their orders are channeled through stock exchanges or over-the-counter markets, and the prices at which they are willing to buy or sell are readily available. Consummation of a real estate deal, for example, may drag out for months and perhaps even years, while a security transaction can be arranged almost instantaneously.

How to start to invest is a topic much broader in scope, and one with numerous ramifications. The more fully informed you are, the better are your chances for success.



Common and Preferred Stocks

When you invest in securities, you will make your selections from two broad general classifications—stocks and bonds. In turn, there are many types within each of these two categories. You should be familiar with the characteristics of each, as well as with their advantages and disadvantages, so that you can select the type suitable to your particular needs.

After all, investing is serious business. The commitment you make, whether large or small, undoubtedly involves some hard-earned money. By obtaining at least a working knowledge of the subject you should be better equipped to safeguard your principal and obtain the benefits of a worth-while income return and/or capital appreciation. Give investing the same serious consideration, for example, that you would if you were to buy a house. Then you would first determine the type best suited to your family requirements. The same careful degree of selection should be given to securities.

Stocks represent the ownership of a corporation. Known as "equity capital," they take the form of common or preferred issues. All corporations have common stock; not all firms have preferred stock.

RECORD OF COMMON STOCKS
Representative Industrial Issues
(S&P Index)

	Average Price	Earnings Per Share	Divds. Per Share
1953 ..	24.84	2.59	1.47
1954 ..	30.25	2.89	1.57
1955 ..	42.40	3.78	1.68
1956 ..	49.80	3.53	1.78
1957 ..	47.63	3.50	1.84
1958 ..	49.36	2.95	1.79
1959 ..	61.45	3.53	1.90
1960 ..	59.43	3.39	2.00
1961 ..	69.99	3.37	2.08
1962 ..	65.54	3.87	2.20
1963 ..	73.39	4.24	2.38
1964 ..	86.19	4.83	2.60
1965 ..	93.48	5.51	2.85
1966 ..	91.08	5.89	2.98
1967 ..	99.18	5.66	3.01
1968 ..	107.49	6.15	3.18
1969 ..	107.13	6.17	3.27
1970 ..	91.29	5.43	3.24
1971 ..	108.35	6.02	3.18
1972 ..	121.79	6.83	3.22
1973 ..	120.44	8.86	3.48
1974 ..	92.91	9.69	3.72
1975 ..	96.56	8.55	3.78
1976 ..	114.35	10.68	4.25
1977 ..	108.44	11.57	4.96
1978 ..	106.16	13.12	5.35
1979 ..	114.83	16.21	5.98
1980 ..	134.53	16.13	6.55
1981 ..	144.25	16.70	7.00

ADVANTAGES OF PREFERREDS

Preferred stock is given certain preferential treatment over the common, most importantly (1) the right to receive a fixed dividend before any payment can be made on the common, and (2) a prior claim against assets in the event the company is liquidated. Dividends usually are cumulative. The interest of the preferred shareholder is otherwise limited except for convertible preferreds. He often has no voting privileges except when a specified number of preferred dividends are in arrears, nor can he expect more than the stipulated dividend.

COMMON HOLDER SIMILAR TO PARTNER

If you invest in common stock, your position is similar in many respects to that of a general partner, without being subject, however, to the unlimited liability inherent in a partnership. As owner of a share of the business, you are entitled to elect directors, to vote on certain other matters, and to participate in the distribution of earnings after all prior charges (bond interest, preferred divi-

dends, etc.), if any, have been met.

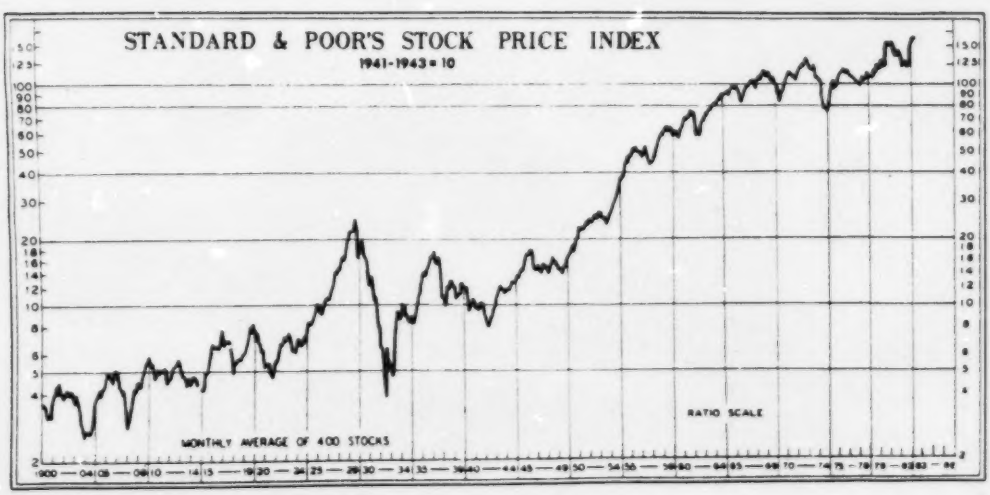
Your proportionate ownership depends on the number of shares you hold in relation to the number of shares outstanding. If, for example, you hold 100 shares in a company with 10,000 shares outstanding, you own one-hundredth of the company, or 1%. Some companies have only a few owners, while the big corporations have hundreds of thousands. American Telephone & Telegraph tops the list with over three million owners. Over 60 leading American corporations have more than 100,000 shareholders each.

RISK ELEMENT

Common shareowners bear the greatest risk, but, on the other hand, are in a position to reap the largest profits. The average corporation plows back a portion of its earnings into the business. In recent years, the typical company has reinvested more than 40% in this manner. The remaining profits are distributed in the form of dividends.

There is nothing static about dividends. In good years, the regular rate may be increased or extra dividends declared; in bad years, dividends may be cut or even omitted. As the accompanying table shows, the trends of dividends on representative industrial common stocks included in the Standard & Poor's price index has been upward over the long term, but there were periods when the trend was in the other direction.

Dividends are an important factor influencing the market. So are earnings. But there are numerous other elements that may induce investors to buy or sell stocks. Their opinions may be influenced, literally, by anything from the state of their digestion to a crisis abroad. Facts



sway them—so do fears, hopes, and their appraisal of the future and the past.

A major advantage of common stocks is that they have provided a means of participating in America's economic growth. Of course, they would also reflect any major setback in the economy.

PREFERREDS LACK GROWTH

Straight preferred stocks lack the growth element to be found in common stocks and, consequently, have not been a good hedge against inflation.

Their market movements are influenced more by the factors governing the bond market than by those affecting common stocks. Where growth is also desired, convertible preferreds have merit, because they participate in advances by the common stock after the conversion point has been reached.

INVESTMENT COMPANIES

Investors who lack the resources, ability or inclination to establish or maintain adequately diversified investment portfolios often buy shares in investment companies (commonly known as mutual funds and closed-end funds). These shares offer investors participation in diversified portfolios of securities under professional management. Portfolios and performances of individual investment companies vary, but holdings in the larger funds generally are such as to provide broad participation in market trends.

STOCK TERMS, FEATURES, ETC.

Arrears – Unpaid dividends (accumulations) on cumulative preferred stock; also, unpaid interest on cumulative income bonds.

Book Value—The stated value of the assets of a corporation, after deducting all liabilities and any arrears on the preferred stock. It is usually expressed in terms of dollars per common share, after deducting preferred stock, if any, at its involuntary liquidating value. It is at best a theoretical value and does not necessarily represent the amount that would be realized in liquidation.

Capital Stock—The aggregate share capitalization of a corporation, consisting of preferred stock, common stock, and any other classes of stock that might be issued.

Class A and Class B Stocks may differ in that one may have voting power and the other may have none. Or there may be differences relating to participation in dividends.

Convertible Preferred—A stock that may be exchanged, at the option of the holder, for a specified number of common shares. In some cases, a time limit is set.

Cumulative—A feature of a preferred stock indicating that, if dividends are not paid in full (i.e., are in arrears), the accumulations must be paid in the future before any dividends can be paid on the common stock. Where a stock is noncumulative, there is no obligation on the part of the corporation to make up unpaid dividends.

Guaranteed Stocks are guaranteed as to dividends by a company other than the one issuing the stock. Guaranteed preferred and common stocks are mostly confined to the railroad field.

Par—The face value at which a security is issued—usually $1,000 per bond, or $100 per share, but sometimes $25 or $10 per share. In rare cases an odd amount is used. No par stock has no designated value.

Prior Preference Stock—A title denoting that two or more classes of preferred stock are outstanding, but that the prior preference is entitled to dividends in full before any payments can be made on the junior preferred stocks.

Proxy—Authority conferred by a shareholder upon another person giving the latter the right to vote the stock owned by the shareholder.

Rights—The privilege accorded shareholders to subscribe to additional stock of the same or another class or to bonds, usually at a price below the market and in amount proportional to the number of shares already held. There is one right for each share held. Rights must be exercised within the limited option period, but can be sold if the holder does not want to purchase the additional securities.

Stock Dividend—A dividend paid in shares of the issuing corporation. Some companies follow the established policy of supplementing cash dividends with stock dividends, while others have followed this practice in recent years as a means of conserving their cash resources for expansion purposes. A large stock dividend, say 25% or more, is frequently regarded as a stock split.

Stock Split—An increase in the number of shares of a corporation, usually by some round-number multiple, such as two for one, three for one, etc., with a proportional reduction in the par or stated value. The chief purpose of a stock split is to reduce the market value of each share to make possible a wider ownership.

Voting Trust Certificate—A certificate issued by voting trustees as a negotiable receipt for stock certificates deposited with them. Stockholders retain all their rights in their stock except voting power, which is delegated to the trustees during the term of the voting trust agreement. The latter is limited in many states to five years.

Warrant—A certificate giving its owner the privilege of buying a specified number of shares of stock of the corporation at a fixed price, with or without a time limit.

Yield on a stock is determined by dividing the annual dividend by the price. Thus, if a stock paying $4 a year in dividends sells at 80, the yield is 5.0%.

Buying and Selling Bonds

As a general rule, bonds are the safest investments because of the nature of their protection. Even a financially weak corporation which long ago may have ceased paying dividends to its shareowners will not default on its bonds until the bitter end. (While this discussion is devoted to corporate bonds, we call your attention also to the discussion of tax-exempt bonds issued by municipalities and governmental agencies on page 13.)

Bonds, as an evidence of debt, have a prior claim on earnings and assets, ranking ahead of preferred or common stocks in a corporation's capital structure. There are various types of debt securities, as outlined later, but the basic principles are the same whether they are called bonds, notes, certificates of indebtedness, etc.

They are a fixed obligation calling for the payment of (1) a stated principal amount at a stipulated future date (maturity), and (2) a series of interest payments at a fixed rate, usually semi-annually, during the bond's life. The life of a bond ordinarily is more than five years.

A bondholder is a creditor of the issuing corporation. A shareholder, on the other hand, is a part owner and is entitled only to his proportionate share of residual assets and earnings, if any. Failure of a corporation to meet the financial requirements of the bond contract (or indenture) almost invariably leads to bankruptcy or receivership.

SAFETY OF PRINCIPAL

The term "safety," of course, is used in a relative sense, taking into account the various securities a corporation may have outstanding. Actually, safety in bonds varies according to the credit standing of the obligor.

To assist the investor, Standard & Poor's assigns quality ratings to bonds:

AAA is the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay principal and interest. Bonds rated AA also qualify as high-quality debt obligations. Capacity to pay principal and interest is very strong, and in the majority of instances they differ from AAA issues only in small degree.

Bonds rated A have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions. Bonds rated BBB are regarded as having an adequate capacity to pay principal and interest. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay principal and interest for bonds in this category than for bonds in the A category.

Bonds rated BB, B, CCC and CC are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions. The rating C is reserved for income bonds on which no interest is being paid.

Bonds rated D are in default, and payment of principal and/or interest is in arrears.

STRONG POINTS AND SHORTCOMINGS

You are in good company if you invest in bonds. These are the only securities commercial banks are allowed to buy, and then they have to be rated in one of the top four quality brackets by a majority of the rating agencies. For years, life insurance companies, savings banks, and certain other institutional investors have concentrated their security investments almost entirely in bonds.

The advantage of buying a high-grade bond is that you know fairly precisely what you will receive on your investment. There is excellent assurance that interest and principal will be paid in full. Even if you paid only $900 for a $1,000 bond in a period of high money rates, you can still be reasonably sure of receiving the full principal of $1,000 at maturity. You also know that you will collect no more than the $1,000 at maturity, even if you had paid $1,050 when money rates were low.

There are certain potentially adverse aspects to consider. The first is that market risks arise from intermediate movements in interest rates. The interest paid on a bond is fixed for its life; it does not fluctuate as money costs change. Bond price changes, to be sure, are much less pronounced than the cyclical swings of common stocks, but you might find it necessary to raise cash on your bonds at a time when the market price is less than the amount you paid. Of course, you can more or less disregard interim movements if your intention is to hold to maturity. Or, if your purchase was made at less than par, as in the first example cited in the preceding paragraph, you can expect to realize a profit at maturity. So you can see that the effects of the money rate factor can be mixed, depending on the timing of your purchase; they can be beneficial in some cases and disadvantageous in others.

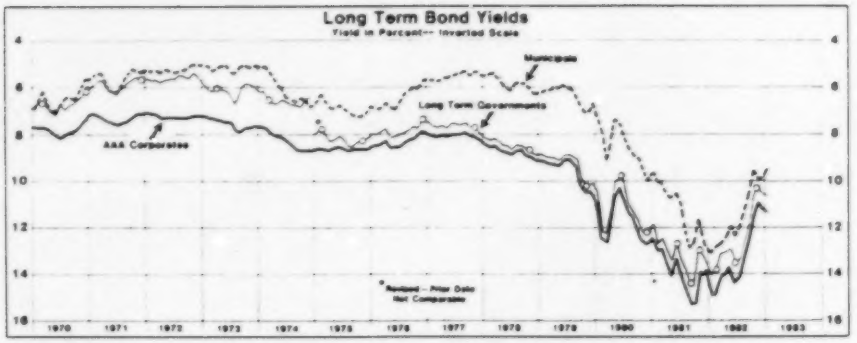
A matter of more serious concern is that relating to the purchasing power of your bond dollars. You know that money invested in a bond will be repaid at par value at maturity, plus interest every intervening six months of "x" dollars, but there is no assurance what these dollars will be worth in terms of buying power at maturity. In a period of deflation, the bondholder benefits, because the dollars returned to him buy more in goods. However, the problem since World War II has been one of inflation, not deflation.

The impact has been severe, as people living on bond interest, annuities, or other investments paying a fixed dollar return will tell you. The dollar has dropped considerably in purchasing power in the past 25 years. The merits of stocks in a period of inflation were discussed in the preceding chapter.

One way of counteracting the effects of inflation while limiting investment risk is to buy convertible bonds. These securities provide all the safeguards inherent in a regular bond, yet permit the holder to exchange his bond for a specified number of common shares. The advantage of this type of bond is that, as the stock price responds to improving earnings, inflationary trends, etc., the bond will do likewise. Convertible bonds have been gaining in popularity for this very reason. Because of this dual feature, however, a premium must be paid in the form of a lower interest rate return than regular issues of comparable quality and maturity.

TYPES OF BOND OBLIGATIONS

Certificates of Indebtedness, issued mainly by the Government, are unsecured



The chart clearly shows that in recent years, there has been a considerable rise in the yields of all types of bonds, including the tax-exempt municipals. The rise was due in part to a tightly controlled monetary market. In 1978, the long term yield turned down slightly.

short-term notes with a maturity no longer than one year.

Collateral Trust Bond—A bond secured by some kind of collateral security, such as bonds, notes, stocks, etc.

Convertible Bond—One that may be exchanged, at the option of the holder, for other securities of a corporation. Quite often, the conversion feature provides, at specified periods, for exchanges into a progressively decreasing number of shares. In some cases, a time limit is set. As a general rule, conversion can be accomplished without investment of additional capital, but there are a few issues that call for a cash payment.

Debenture—A bond without any security pledged other than the issuer's promise to pay.

Discount Bills — These are unsecured short-term obligations (mostly 91 or 182 days) sold by the Government at competitive bidding. No regular interest payments in the accepted sense are made, but these bills are sold for less than their face value, the discount representing the interest. In this respect, these bills are similar to the Series E Savings Bonds, which are also sold at a discount but are paid off at full face value at maturity.

Equipment Trust Certificates, issued by the railroads, are certificates of ownership interest in specified rolling stock and other equipment. The trustee for the equipment trust leases the rolling stock to the railroad at a stipulated rental and retains absolute title throughout the term of the contract. They are not suitable for the average investor.

Guaranteed Bond—One backed contingently by a party other than the issuer. Bonds may be guaranteed as to the payment of principal or interest, or both. If the original obligor fails to make payments, then the guarantor is obligated to do so. The usual purpose of the guarantee is to enhance the security aspects of the bonds of a subsidiary or affiliated company.

Income Bond—A bond, usually issued in reorganization to holders of defaulted mortgage bonds, on which interest payments are contingent upon earnings. Failure to pay interest, except when earned, does not entitle the bond holder to the right to sue. Interest may be cumulative or non-cumulative.

Mortgage Bond—A bond secured by a mortgage on property, which may be sold to satisfy the debt if interest or principal is defaulted.

Note—This is a short to intermediate-term obligation (seven years or less), usually unsecured. It is similar to a bond except for its shorter maturity.

Tax-Exempt Bonds—Exempt, either in part or in entirety, from Federal and/or state and local taxation. The bulk of the completely tax-exempt issues is in the state and municipal field, although a few Government bonds issued prior to March, 1941, are also partially exempt. Capital gains on these bonds are taxable.

BOND TERMS, FEATURES, ETC.

Callable—A term applying to bonds or preferred stocks that are redeemable at the option of the issuer, upon proper notice. Almost all such issues provide for the payment to the holder of a premium over the par value, the premium usually declining progressively over the life of the bonds. In some cases, callable issues are redeemable at a lower call price for sinking fund than for redemption in entirety. Non-callable issues cannot be redeemed prior to maturity.

Interest—The money return on a bond or other fixed obligation, as distinguished from dividends paid on a stock. The interest rate is a percent of each $100 of par value.

Coupon Bonds are payable to bearer, title passing by delivery without endorsement. Interest is received by clipping the attached coupons as they mature and presenting them for payment.

Registered Bonds have the owner's name written on their face and cannot be negotiated except by endorsement and transfer on the books of the issuer, the same as for stock certificates. If the bond is registered as to principal only, coupons are attached, and interest is collected in the same manner as for coupon bonds. If the bond is registered both as to principal and interest, checks for interest are remitted automatically to the registered holder at each coupon date and for the principal at maturity.

Serial Bonds—An issue of bonds payable in installments. For example, $1,000,000 may mature in 1975, another $1,000,000 in 1976, and so on. Most corporate issues, however, are term bonds, having a single maturity each time bonds are issued.

Sinking Fund—A fund created by setting aside, at specified periods, a fixed amount or a portion of earnings sufficient to provide for the eventual payment of part, or all, of an issue of bonds or preferred stock. Sinking fund payments are usually made to a trust company or sinking fund trustee and are just as binding on the obligor as interest payments. The most general operation of a sinking fund is by (1) the purchase of bonds or preferred stock in the open market (2) the call of such issues, or (3) the solicitation of tenders from bondholders in an amount sufficient to exhaust the periodic sinking fund.

Subordinated—Applied to a bond whose claim on assets and earnings has lower priority than other debt.

With Interest—Most bonds and notes are sold "with interest," meaning that they must be paid for at the price named, plus accrued interest from the preceding interest payment date. Income and adjustment bonds, however, are traded "flat," meaning that no accrued interest must be paid.

Yield—The percentage return on an investment. The current yield on a stock or bond is computed by dividing the annual dividend or interest by the price. Computation of the yield to maturity on a bond takes into consideration the difference between the purchase price and its value at maturity. This is an involved mathematical process, and is determined most readily by use of a yield book.

How To Develop Your Investment Plan

The preceding pages have acquainted you with the types of securities and their characteristics. Now you should be in a position to apply that knowledge to the formulation of an investment program to fit your particular needs.

First, however, it should be recognized that certain other things come ahead of security investments. If you are a family head, adequate life insurance should have a prior claim on your savings. So should home ownership in many cases. Finally, you should have a cash reserve fund for personal or family contingencies.

Then, after these requirements have been met, give careful thought to the types of securities you should buy. Make a careful assessment of your own position, taking into account age, family responsibilities, earned income, and objectives. Even your temperament has a bearing. If you are a worrier, confine your commitments to relatively safe securities; your peace of mind means something.

There is no single mold for investment policies. Each program must be tailored to meet the specific needs of the individual. You must decide what degree of risk you can afford to assume; how much emphasis to put on safety of principal; how much on possible capital gain.

THE CONSERVATIVE INVESTOR

If you depend on income from investments for a large part of your living expense—perhaps as a widow or retired person—your dominant requirements will be assured income and relative safety of principal.

The securities best suited for this purpose are high-grade bonds and/or preferred stocks. But since these issues do not provide the inflation-hedge protection required by a person relying heavily on investment income for living expenses, a fair-sized commitment in sound common stocks is also justified. For this purpose, selections should be confined to high-quality issues backed by relatively stable operations in both good and bad years and by a long record of uninterrupted dividend payments.

BUILDING AN ESTATE

Your investment planning should be along different lines if your objective is to build an estate for the future, perhaps for retirement. Your circumstances, we would assume, are that you own your home, have adequate insurance, are not dependent on income from investments, and that you can look forward to many more years of productive work. It is further assumed that you are able to take a greater degree of risk than would be involved by accumulating funds in a savings account or by buying bonds, preferred stocks, or even old-time "good name" common stocks.

Growth stocks are ideal for this purpose. Because of the vitality of such companies and their demonstrated ability to forge ahead at a faster pace than industry generally, these stocks, over a term of years, have greatly outdistanced the general market. They are not immune to general setbacks, and may even decline more than other stocks, but their recovery is usually quite rapid. Current dividend return is comparatively small in most instances. Over the long term, however, wisely selected growth stocks usually pay off handsomely, not only in capital gains, but also in expanding income.

APPROACHING RETIREMENT

As you approach retirement age you will want to reduce your risks and place greater emphasis on income. As long as inflation abounds, some consideration to growth is still advisable. Your emphasis however, will be more on the objective of highest income return commensurate with safety, rather than long-term capital gain.

SPECULATOR OR TRADING INVESTOR

The speculator is in still another category. His interest is mainly in the cheapest values from the standpoint of nearby months. Good long-term prospects, while a desirable feature, are not all-important. The true speculator is not averse to a security with a basically unfavorable long-term future if there is the possibility of realizing a profit on the basis of encouraging interim developments.

Timing of purchases in the light of the immediate position of the general market is also a more important consideration for this individual than for the long-pull investor. Dividend return is secondary to the possibilities for capital gain.

Obviously, the risk element is fairly high—greater than the average individual should assume if his funds were confined to situations of this caliber. What usually happens, in practice, however, is that many investors will have a backlog of relatively sound long-term investments, plus a smattering of speculative holdings.

EASING THE TAX BURDEN

An important consideration for all investors, but particularly for those in the higher income brackets, is the problem of softening or overcoming the impact of high taxes. There are several means of accomplishing this.

One is to purchase state and municipal bonds, whose interest payments are completely exempt from Federal income taxes. Relative yields on these securities and common stocks have been such in recent years that tax-exempt bonds no longer can be regarded solely as "rich men's investments." Some restrictions on the amount of permissible tax preferences have been incorporated into the Internal Revenue Service Code. Nevertheless, as the accompanying table illustrates, even for a person in the 25% tax bracket, yields of 5.50% on tax-exempt bonds are the equivalent of 7.33% on taxable common stocks. And, of course, the benefits of tax exemption progress with the tax bracket. Thus, the 5.50% tax-exempt yield becomes the equivalent of 12.22% at a 55% tax rate.

Another outlet is in tax-free dividend payers, a comparatively small group of stocks on which dividends are fully or partly exempt from income taxes. Instead, the value of the dividends received is treated as a return of capital, and the cost of the investment is written down by a corresponding amount. In selecting issues of this type it is important to determine whether the special circumstances responsible for the tax-free status are likely to apply for some time ahead.

A third grouping consists of companies that plow back the bulk of their earnings into the business, such as growth stocks. Money reinvested in the business becomes more valuable to the shareholder, from a tax standpoint, than earnings paid out in dividends, because such stocks normally show better-than-average price appreciation. Long-term capital gains are

TAX-EXEMPT vs. TAXABLE YIELDS

Tax % Rate	Following Yields (%) On Tax-Exempt Securities Are Equal to Yields Below on Taxable Issues						
	4.00	4.50	5.00	5.50	6.00	6.50	7.00
19	4.94	5.56	6.17	6.79	7.41	8.02	8.64
22	5.13	5.77	6.41	7.05	7.69	8.33	8.97
25	5.33	6.00	6.67	7.33	8.00	8.67	9.33
28	5.56	6.25	6.94	7.64	8.33	9.03	9.72
32	5.88	6.62	7.35	8.09	8.82	9.56	10.29
36	6.25	7.03	7.81	8.59	9.38	10.16	10.94
39	6.56	7.38	8.20	9.02	9.84	10.66	11.48
42	6.90	7.76	8.62	9.48	10.34	11.21	12.07
45	7.27	8.18	9.09	10.00	10.91	11.82	12.73
48	7.69	8.65	9.62	10.58	11.54	12.50	13.46
50	8.00	9.00	10.00	11.00	12.00	13.00	14.00
53	8.51	9.57	10.64	11.70	12.77	13.83	14.89
55	8.89	10.00	11.11	12.22	13.33	14.44	15.56
58	9.52	10.71	11.90	13.10	14.29	15.48	16.67
60	10.00	11.25	12.50	13.75	15.00	16.25	17.50
62	10.53	11.84	13.16	14.47	15.79	17.11	18.42
64	11.11	12.50	13.89	15.28	16.67	18.06	19.44
66	11.76	13.24	14.71	16.18	17.65	19.12	20.59
68	12.50	14.06	15.63	17.19	18.75	20.31	21.88
69	12.90	14.52	16.13	17.74	19.35	20.97	22.58
70	13.33	15.00	16.67	18.33	20.00	21.67	23.33

A DECADE OF DOLLAR COST AVERAGING

$1,000 INVESTED SEMI-ANNUALLY; BASED ON S&P 500 INDEX

		Index First Trading Day	*Cumulative Investment*	*No. Shares Bought*	*No. Shares Held*	*Accumulated Divds.*	*Mkt. Value and Divds. Received*
1973	Jan.	119.10	$ 1,000	8.40	8.40	$ 0	$ 1,000
	July	102.90	2,000	9.72	18.12	13	1,878
1974	Jan.	97.68	3,000	10.24	28.36	45	2,815
	July	86.02	4,000	11.63	39.99	94	3,534
1975	Jan.	70.23	5,000	14.24	54.23	169	3,978
	July	94.85	6,000	10.54	64.77	268	6,411
1976	Jan.	90.90	7,000	11.00	75.77	388	7,275
	July	103.59	8,000	9.65	85.42	533	9,382
1977	Jan.	107.00	9,000	9.35	94.77	716	10,856
	July	100.10	10,000	9.99	104.76	926	11,412
1978	Jan.	93.82	11,000	10.66	115.42	1,183	12,012
	July	95.09	12,000	10.52	125.94	1,467	13,443
1979	Jan.	96.73	13,000	10.34	136.28	1,796	14,978
	July	101.99	14,000	9.80	146.08	2,168	17,067
1980	Jan.	105.76	15,000	9.46	155.54	2,595	19,045
	July	114.93	16,000	8.70	164.24	3,065	21,941
1981	Jan.	136.34	17,000	7.33	171.57	3,581	26,973
	July	129.77	18,000	7.71	179.28	4,139	27,404
1982	Jan.	122.74	19,000	8.15	187.43	4,745	27,750
	July	108.71	20,000	9.20	196.63	5,388	26,764
1983	Jan.	138.34	21,000	7.23	203.86	6,064	34,266

subject to taxes that are substantially less than the rate applicable to dividend income.

MERITS OF DOLLAR COST AVERAGING

One of the simplest and most practical investment systems you should consider is "dollar cost averaging." This systematic savings plan is ideally suited to the individual with a steady income who can see his way clear to investing a fixed amount regularly over a period of years. Strictly an unemotional approach, it avoids the wide margin for error involved in trying to gear purchases and sales to the swings of the general market.

Dollar cost averaging merely involves the buying of equal dollar amounts of stock at regular and continuing intervals, whether annually, semiannually, quarterly, or monthly. The simple arithmetic principle involved is that the same amount of money will buy more shares when the price is low than when the price is high. As a consequence, the average cost of purchase will be lower than the average price.

Fundamental Rules for Successful Investing

"DO'S"

1. Select your securities with great care and in accordance with your personal investment objectives.

2. Place only a small part of your total funds in the more speculative issues.

3. Time your purchases so that you buy around the low points of cyclical movements, or when the issues you want are underpriced; and time your selling later when the market reaches cyclical peaks, or when individual issues you hold appear overpriced. Give serious thought to a dollar cost averaging program.

4. Diversify your holdings among types of securities and among industries and/or companies. "Don't put all your eggs in one basket" is a sound rule. A few well-chosen securities of strong, broadly-based companies can well meet minimum diversification needs. Don't buy 100-share lots if by buying odd lots you can obtain a better balance in your account.

5. Remember that at certain stages of the business cycle you will fare better if you keep a substantial portion of your funds in cash or in high-grade bonds and preferred stocks. In other periods, such as during market booms and inflationary upswings, common stocks offer you the best investment medium.

6. Most investors should buy outright, paying in full for securities—never on margin, through bank loans, or with other borrowed money.

7. Be satisfied with reasonable profits. Do not try to get the last few points out of a rise, and be willing to take a loss when necessary.

"DON'TS"

1. Do not assume too much speculative risk at advanced market levels. Few people can properly risk putting more than a modest to moderate portion of total funds into speculative ventures at any time.

2. Do not expect too much too soon. Have patience. Remember that successful investing is essentially a long-term proposition.

3. Do not buy on tips, hunches, or rumors. Investigate first. Also, avoid too much in-and-out trading. For building capital, the soundest and most promising policy is to take and hold long-term investment positions in securities of strong, vigorous, growing companies.

4. Do not become unduly disturbed over interim market sell-offs. There have been relatively few instances where a "sell-everything" policy was justifiable, considering the wide margin for error in trying to judge turning points in the market cycle. There have been many more instances in which "scare" selling has resulted in loss of good investment.

5. Do not stay "married" too long to inferior stocks because of reluctance to take losses. We all make some wrong judgments. Refusal to correct them compounds the damage more often than not.

6. Do not overreach for income. Differing yields usually make rough allowance for differences in risk and in potentials for appreciation. Few stocks with extremely high yields qualify for conservative income investment. If you seek income and appreciation, yields of suitable stocks will generally be average or below average.

Your Broker and the Securities Markets

A major advantage securities have over other forms of capital assets is their ready marketability and the ease with which they can be bought or sold. Because there are well-organized markets, you do not have to search for buyers or sellers. Prices are widely publicized via tickers and newspapers.

Contrasted with mortgages and real estate, for example, there are other definite advantages. There is no need for title search, for complicated documents, or for legal counsel. Commissions are relatively low, averaging about 1% against 5% or more that would have to be paid on the sale of a house. Proceeds are realized within five business days.

FUNCTIONS OF EXCHANGES

This high degree of liquidity, which cannot be matched elsewhere, is the product of the widespread facilities created for trading in securities. Best known is the New York Stock Exchange, followed by the American Stock Exchange (also in New York City). Other stock exchanges are named in the accompanying table, and there is a vast, increasingly sophisticated over-the-counter market.

Stock exchanges provide a meeting place for buyers and sellers, acting through brokers or commission houses who are members of the exchange. The exchanges do not buy or sell securities, nor do they fix prices. Prices are determined under a two-way auction system.

Probably no business in the world operates under more stringent regulation or with a stricter code of ethics. Certain abuses that had developed in the past were eliminated by legislation providing for full and fair disclosure in new security offerings, prevention of fraud, and regulation of markets. The SEC also requires officers, directors and principal stockholders of companies with listed securities and some traded over the counter to report any transactions by them in the stocks of their company.

CONTROL OF CREDIT

Government controls also regulate the use of credit in the securities market. This section of the Securities Exchange Act of 1934 is administered by the Federal Reserve Board.

Aside from Federal regulation, most states have laws providing for the registration of brokers and dealers and the offering and sale of securities to the public. Finally, the stock exchanges engage in self-policing, not only setting standards to be met by companies whose securities are listed but also prescribing rules of conduct, minimum capital requirements, etc., for their own members.

U.S. STOCK EXCHANGES

American Stock Exchange
Boston Stock Exchange
Chicago Board Options Exchange
Cincinnati Stock Exchange
Midwest Stock Exchange
New York Stock Exchange
Pacific Stock Exchange
Philadelphia Stock Exchange
Intermountain Stock Exchange
Spokane Stock Exchange

OVER-THE-COUNTER MARKET

The over-the-counter market, also known as the unlisted or off-board market, does not provide a meeting place for buyers and sellers in the same manner as the exchanges. Rather, it is a complex network of independent dealers linked by a computerized communications system (known as the NASDAQ system), telephone and teletype. In number of transactions and in dollar volume, the over-the-counter market probably dwarfs the total exchange markets. Daily volume of shares traded through the NASDAQ system alone is greater than the total volume on all other exchanges combined except the New York Stock Exchange.

Unlike the auction markets on the exchanges, over-the-counter securities are traded in a negotiated market. In many transactions the broker or dealer will buy the security himself or he will sell from his holdings. In such trades, the dealer acts as a principal instead of an agent (broker).

Over-the-counter brokers and dealers are subject to Federal and state regulation, as well as to the rules of their trade association, the National Association of Securities Dealers, Inc., which establishes standards and practices for its members.

ROLE OF THE BROKER

Assuming you now have a working knowledge of the securities business and are ready to invest some of your funds, the person for you to see is a broker. Your friends or associates may recommend one, or you will find advertisements in the financial section of your newspaper. There are two kinds of brokers, full-service and discounters. Discounters are the least expensive, but generally their only function is to execute orders. Brokerage fees are negotiable and differ from firm to firm.

There is nothing difficult about opening a securities account. It is just as simple as opening a savings account—merely establishing your identity and depositing enough money to cover the purchases you want to make. If you want to buy on margin, some standard forms will have to be filled out, just as when you buy a car or household goods on the installment plan.

Your broker, of course, will see that your orders are executed at the best possible prices. And, if you wish, he will keep your securities for you and send checks for dividends and interest when these are received.

People sometimes feel embarrassed about the amount of money they have to invest. They feel that the broker does not want to be bothered with small sums. Nothing could be further from the truth. The New York Stock Exchange and the larger member firms are spending sizable sums in advertising every year to tell the small investor they are definitely interested in him. You can invest as little as $40 every month or even every three months under the Monthly Investment Plan. Ask the New York Stock Exchange or a member firm to send you information about this savings plan.

Language of the Financial Community

Almost every profession has a terminology of its own. That most certainly is true of the financial business, which uses terms not readily understood by the layman. Presented herewith are definitions of terms likely to be encountered by the potential investor in buying and selling securities.

BROKERS AND DEALERS

Broker—One who acts as an agent in the execution of orders, receiving a commission for his services.

Brokerage Houses—These firms act as a medium of contact with the investing public. Chief among the services performed are the furnishing of investment information, the acceptance and execution of orders, the reporting to customers of transactions effected for them, and the receipt and delivery of securities.

Dealer—One who acts as a principal in a security transaction, as distinguished from a broker who is an intermediary.

Floor Broker—A regular member of an exchange primarily engaged in the business of executing orders for other members on the floor of a stock exchange. He is a broker's broker.

Floor Partner—A partner of a brokerage house who executes orders for his firm on the floor of an exchange of which he is a member.

Floor Trader—An exchange member who, while on the floor, buys and sells listed securities for his own account.

Odd-Lot Dealer—Servicing the small investor, this dealer buys or sells round lots (most commonly 100 shares) and stands ready to sell stock to odd-lot buyers and purchase stock from odd-lot sellers. The odd-lot transactions, so far as price is concerned, are geared to the round-lot market. Odd-lot dealers no longer receive a differential of one-eighth to one-quarter of a point for their services.

Specialist—An exchange member who remains at one trading post on the floor and acts as a channel for orders from other members in the particular securities in which he is registered as a specialist. He must see that the orders are properly executed. It is his obligation to maintain a close, continuous, and orderly market at all times, to the best of his ability, in the stocks assigned to him. He acts as a broker when he executes orders for customer houses, and as a dealer when he buys or sells for his own account.

TRADING TERMS

Bid and Asked—Bid price is the price which a prospective buyer will pay for a security. Asked price (also called offer) is the price at which a holder offers to sell.

Ex-Dividend — Without the dividend, meaning that the right to the pending or accrued dividend is reserved to the seller. The ex-dividend date is the first day the stock sells without the dividend, and on which the quoted price for the stock usually measures a decline equal to the value of the dividend.

Ex-Rights — Without rights, the latter being retained or having been exercised by the seller.

Margin—Partial payment for a security, involving full ownership rights and risks, with the balance financed, usually by a broker's loan. Minimum margin requirements are fixed by the Federal Reserve Board.

Margin Call—A notice from a broker to a borrower requesting additional margin to maintain a minimum that has been impaired by market decline of the pledged securities. If a margin call is not satisfactorily answered, the broker has the right to dispose of the collateral and satisfy the loan.

Odd Lot—Less than 100 shares, which is the standard unit of trading for most stocks and is known as a round lot.

Point—Unit of measurement for changes in stocks, bonds, or commodity quotations. In stocks, one point is equal to $1.00 per share; for bonds of $1,000 denominations, it is $10.00 per bond.

Round Lot—Usually 100 shares or multiples thereof.

TYPES OF ORDERS

At the Opening—An order left with a broker for execution at the best price obtainable at the opening of the market. If an odd lot (less than 100 shares), the order is executed at one-eighth or one-quarter of a point away from the opening price for a round lot.

At the Close—An odd-lot order executed on the basis of the final bid and asked prices.

Day Order—An order good only for the day received, after which it is automatically canceled.

G. T. C.—Good till canceled; i.e., if not executed on the day given, the order is carried over by the broker to the following day, or to subsequent days, until the market reaches the price stipulated or the order is canceled. Other time limits may be designated, such as "Good this week," "Good this month," etc.

Limit Order—An order to be executed at a specified price, or at a price more favorable to the customer, if possible.

Market Order—An order to be executed at the best price obtainable immediately after its receipt by a broker. If no price is stated, an order is always understood to be "at the market." An odd-lot market order is executed one-eighth or one-quarter point from the next round-lot price.

Seller 30—When the seller contracts to deliver securities 30 days after sale. Other delivery periods may be specified.

Stop Order—An order that does not go into effect until the actual market price reaches the price specified on the order, at which time the stop order becomes a market order. Execution does not necessarily take place at the price at which the stock is stopped. Stop orders to buy are usually placed above the current market, while stop orders to sell are generally placed below the current price. The main purpose of a buy stop order is to limit the loss of a short seller against a sudden advance in price, while a sell stop order limits the loss of a holder of stock against a sudden decline in price.

Stop and Limit—Similar to a stop order, except that the price at which it is executed, after going through the stop, is limited. It is merely a combination of the stop and limited order. The limit price may be the same as the stop price, or a different price may be set.

OTHER FINANCIAL TERMS

Arbitrage – The simultaneous purchase and sale of securities, commodities, foreign exchange, etc., in different markets where, because of technical conditions, there is a temporary variation in the ruling prices.

Averaging Down—The practice of adding to one's position in a security at more favorable price levels than the original commitment. The purpose is to lower the average cost of the combined purchases, thus implying a paper loss on the original commitment.

Bear—A person who believes that security or commodity prices will decline and who acts accordingly by liquidating a "long" position or by going "short."

Blue Chip—A quality stock held in high esteem by investors because of the company's size, stability or other factors. This attitude is often reflected by a premium price-earnings ratio.

Blue Sky Laws—A term applied to state laws enacted to protect the public against securities frauds.

Board Room—A customers' room in a broker's office where quotations are posted on a board throughout the day.

Borrowing Demand—Inquiry for stocks by people who, short of the market, must borrow stocks for delivery.

Bull—A person who believes that prices will rise and who buys on that assumption.

Businessman's Investment—An intrinsically sound security that is affected by business conditions and therefore must be carefully watched.

Call—An agreement whereby the maker, for a consideration, contracts to deliver to the holder, if the latter so desires, a specified security within a certain period at a stipulated price. A call, which is just the reverse of a put, is bought if the holder expects the price of the security to advance during the contract period.

Call Money—Loans good only from day to day, usually based on New York Stock Exchange collateral, subject to demand for payment at any time.

Carrying Charge—The fee charged by a broker for carrying a customer's securities on margin.

Cats and Dogs—An expression used to denote highly speculative securities.

Closed-end Fund—A type of Investment company with a more or less fixed capitalization. Shares of closed-end funds are usually traded on stock exchanges or in the over-the-counter market.

Conglomerate—A highly diversified company. Often the company has an active acquisition program which utilizes securities to make its purchases.

Distress Selling – Forced liquidation brought about when the owner's equity in stocks purchased on margin has been impaired or eliminated by declining prices.

Futures—Contracts in which the seller agrees to deliver commodities, foreign exchange, or securities at a specified future date.

Growth Stock—The stock of a company whose sales and profits consistently have been rising faster than those for corporations generally.

Hedging—The process of protecting a "long" transaction by means of a "short" transaction, to prevent loss through price fluctuation. It is commonly practiced in commodity trading and foreign exchange.

Hypothecation—The deposit of securities or other collateral as pledge for the payment of a loan.

Insider—A person close to a corporation who has intimate knowledge of financial developments before they become publicly available.

Intrinsic Value—The value of a security based on its underlying worth, as distinguished from its market value, which may be either higher or lower than its intrinsic value.

Major Trend—The underlying trend of prices, even though interrupted by temporary rallies or reactions.

Mutual Fund—A type of investment company which regularly sells additional shares and must redeem shares turned in by holders.

NASDAQ—A computerized communications system that collects and stores up-to-the-second quotations from a network of OTC dealers making markets in approved over-the-counter stocks.

Overbought—A weak technical market position resulting from active speculative buying and advancing prices, which tempts speculative holders of stock to accept their profits.

Oversold—The reverse of overbought, particularly with a short interest anxious to cover.

Price Earnings Ratio—Market price divided by earnings per common share (or primary earnings per share where applicable).

Penny Stocks—Stocks selling for less than $1.00 and therefore quoted in cents.

Portfolio—Holdings of securities of an individual or institution.

Professional—One who makes his living in the investment field as opposed to "the public," to which investing is an avocation.

Profit Taking — Acceptance of profit either by selling a "long" holding or covering a "short" position.

Put—See "Call."

Pyramiding — Purchase of additional stock, bonds, real estate, etc., by using unrealized profits as additional margin.

Rally—A temporary price advance after a decline.

Reaction—A temporary price decline following an advance.

Real Estate Investment Trusts (REITS)—Unincorporated business trusts which enable investors to participate in professionally managed portfolios of investments in real estate construction and development loans, long-term mortgages, or equity interests involving office buildings, apartments, shopping centers, and industrial buildings.

Rights—When a company wants to raise more funds by issuing additional securities, it may give its stockholders the opportunity, ahead of others, to buy the new securities in proportion to the number of shares each owns. The piece of paper evidencing this privilege is called a right. Because the additional stock is usually offered to stockholders below the current market price, rights ordinarily have a market value of their own and are actively traded. In most cases they must be exercised within a relatively short period. Failure to exercise or sell rights may result in actual loss to the holder.

Scale Buying—Purchase made by means of orders at regular price intervals below the prevailing market.

Scale Selling—Sales at regular price intervals above prevailing quotations.

Secondary Distribution—Also known as a secondary offering. The sale off the floor of an exchange by a securities firm or group of firms at a fixed price related to the current market price. The block of stock is usually a large one, such as might be involved in settlement of an estate. Exchange approval is required for member firms to participate in a secondary distribution of a listed stock.

Secular Trend—Long-term trend judged to be normal.

Selling Against the Box—A sale of stock without delivery of the certificates owned. This is technically a "short" operation, which may be covered either through repurchase of the stock sold or delivery of certificates already owned.

Short Sale—Sale of a security or commodity not owned, which in the case of securities involves borrowing of the securities sold to make delivery and the later purchase of similar securities to restore to the lender.

Short Covering—Purchase of securities or commodities to complete a short transaction.

Special Offering—A block of stock sold in a special manner because of its size and the particular market for the issue. Announcement is made on the ticker tape that the stock will be offered on the floor of the exchange at a fixed price, usually based on the last transaction in the regular auction market. Member firms may buy the stock for customers directly from the seller's broker during trading hours. Only the seller pays a commission.

Squeeze—Short sellers are "squeezed" when they are forced to cover their contracts in a rising market for fear that the advance will continue.

Street Certificate—A stock certificate that has been endorsed in blank by the registered owner and guaranteed by a responsible broker, which then may be bought and sold without being transferred on the books of the company. Such certificates are used as collateral in margin accounts.

Technical Position—Condition of the market as affected by immediate supply and demand for stocks (or bonds, or commodities) without regard to external or fundamental factors.

Trading Market—A market in which the range of price movements is relatively narrow for a considerable period of time, hence has profit possibilities only for those who trade actively to take advantage of smaller price movements.

Warrants—A certificate giving the holder the right to purchase securities at a stipulated price within a specified time limit or perpetually. Sometimes a warrant is offered with securities as an inducement to buy.